

Finalizing Provincial Land Tax Reform

*Transforming
Provincial Land Tax
into a Fair and
Modern Property Tax
System*

November 2017



Ministry of Finance

TRANSFORMING PROVINCIAL LAND TAX INTO A FAIR AND MODERN PROPERTY TAX SYSTEM

Provincial Land Tax (PLT) is the property tax paid in unincorporated areas of northern Ontario outside municipal boundaries. The Province levies PLT to help fund important community services including policing, land ambulance, public health, and social services in unincorporated areas.

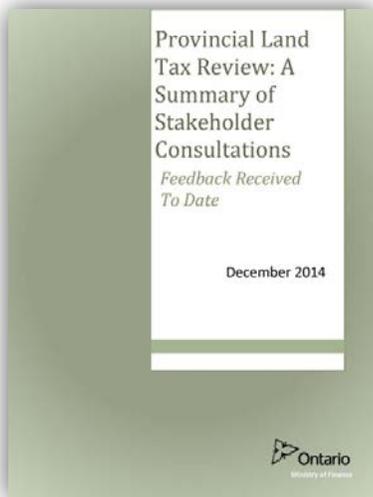
In 2013, the Province announced a review of PLT in response to concerns about inequities in taxation and in how services are paid for in the north. The initial phases of PLT reform announced in the 2015 *Ontario Budget* and 2016 *Ontario Economic Outlook and Fiscal Review* began to address these inequities.

The 2017 *Ontario Economic Outlook and Fiscal Review* announced measures related to the final phase of PLT reform. These measures address the remaining issues raised as part of the ongoing review of the program. With the completion of this final phase of reform, the PLT in northern Ontario will be transformed into a fair and modern property tax system.

PLT REFORM CONSULTATIONS

When the PLT review was first announced in 2013, the Province committed to consult with northerners and to address their concerns in a fair and balanced way. Since then, the Ministry of Finance has consulted extensively with unincorporated area property owners and representatives of local roads and service boards, and held ongoing discussions with northern municipalities and businesses.

In **2014** the Ministry of Finance held 21 consultation sessions with local board representatives across northern Ontario.

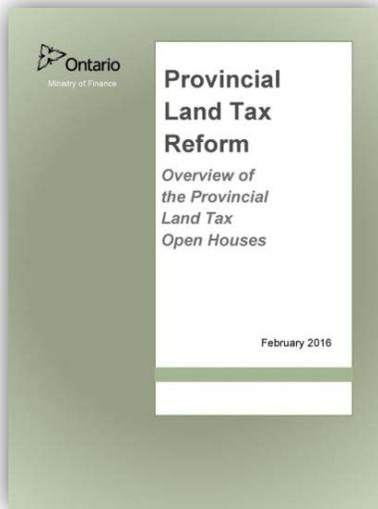


A paper summarizing the perspectives and concerns raised by local board representatives and businesses in unincorporated areas, as well as northern municipalities was published in December 2014.

<https://www.fin.gov.on.ca/en/consultations/landtaxreform/plt-review.html>

In **2015** the Ministry of Finance held 15 open houses across northern Ontario. An invitation to participate in these open houses was mailed to all unincorporated area property owners. The consultations provided participants with the opportunity to share their input on the review and hear about the 2015 and 2016 PLT changes.

These sessions were summarized in a paper published by the Ministry of Finance in February 2016. <https://www.fin.gov.on.ca/en/consultations/landtaxreform/plt-openhouses-report.html>



In **2016** the Ministry of Finance sought additional input through a PLT Consultation Questionnaire. A notice was sent to all unincorporated area property owners inviting them to participate.

A summary of the responses to the questionnaire was published in August 2016.

<https://www.fin.gov.on.ca/en/consultations/landtaxreform/plt-questionnaire-results.html>

In **2017** the Ministry of Finance held further consultations with local board representatives. A total of 5 sessions were held across northern Ontario in September 2017. This paper summarizes the input received during these discussions, which has

helped to inform the final phase of PLT reform.

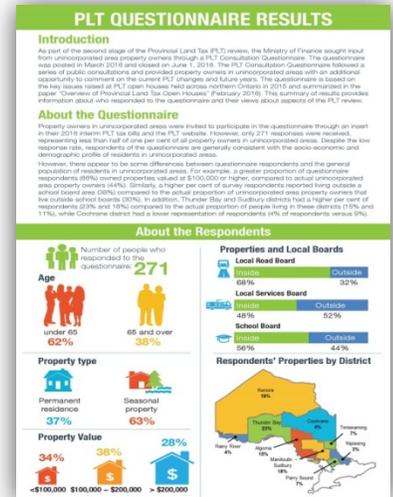
KEY FEEDBACK FROM CONSULTATIONS (2014-2016)

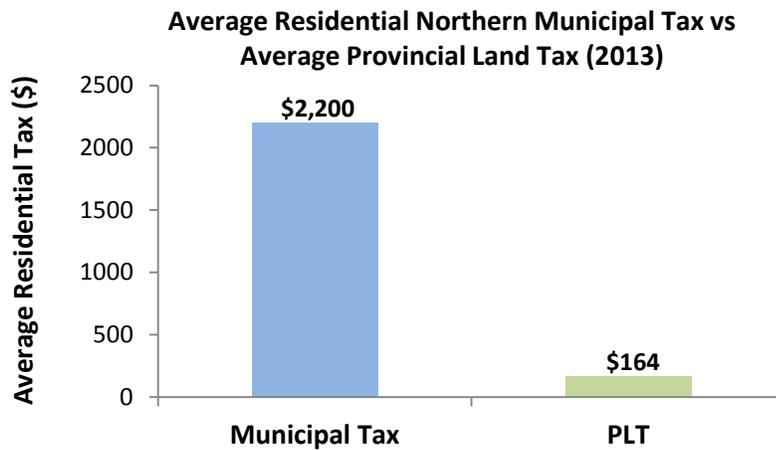
Throughout the PLT review, the Ministry of Finance heard a range of views from property owners and local board representatives in unincorporated areas, as well as northern municipalities. Unincorporated area residents and local board representatives have consistently said they are willing to pay their fair share for the services they receive, however have expressed concerns related to tax inequities in the north and future PLT changes.

This paper highlights four key issues that were commonly raised during the consultations:

1. Differences between PLT and northern municipal property taxes

Northern municipalities raised concerns about significant differences between their property taxes and PLT. Prior to the introduction of PLT reform, PLT rates had not been updated to increase revenues since the 1950s. Over time, significant differences had developed between PLT and average northern municipal property tax. The average residential PLT in 2013 was \$164, compared to the average residential northern municipal tax of \$2,200 (excluding education property tax).





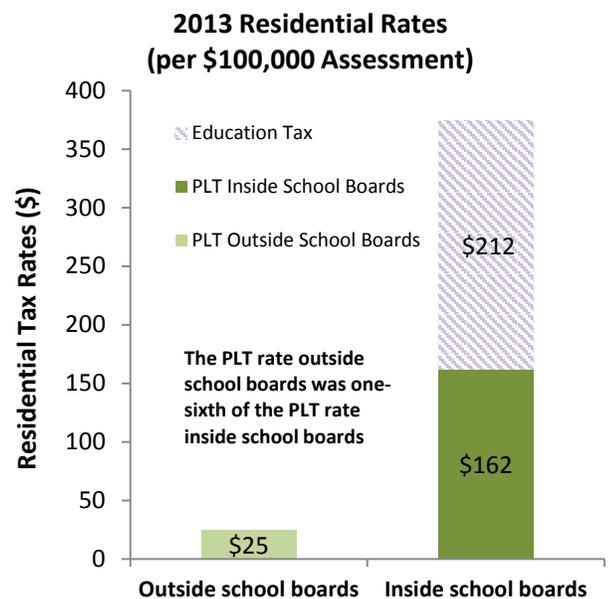
The difference in average residential municipal tax and PLT can be partially attributed to different residential property assessment values in northern municipalities compared to unincorporated areas. However, when these residential rates are compared on the basis of property tax per \$100,000 of assessed value, the difference is still significant. Average northern municipal residential property taxes in 2013 were ten times higher than the average residential PLT per \$100,000 of assessed value.

It is also important to note that the goal of the review is not to align PLT rates with the average municipal tax. The Province recognizes that unincorporated areas have fewer services than municipalities. In addition, many unincorporated area residents also pay levies to local roads and service boards for services in their communities.

2. Rate inequities within unincorporated areas

In addition to issues related to the differences between municipal property tax rates and PLT rates, concerns were also raised regarding inequities within unincorporated areas.

Specifically, the Ministry heard concerns about the lower PLT rate for residential properties outside school boards compared to those inside school boards. When the review was announced in 2013, the PLT rate for residential properties in areas outside school boards was one-sixth of the PLT rate for areas inside school boards (\$25 per \$100,000 of assessed value compared to \$162 per \$100,000 of assessed value). This was the case even though both areas receive the same level of services that PLT contributes toward. In addition to lower PLT rates, areas outside of school boards do not pay education property tax.



Throughout the PLT consultations, the majority of property owners in unincorporated areas indicated that this inequity should be addressed.

3. Business contributing a fair share

During consultations, many property owners indicated that businesses should contribute their fair share of any future PLT changes. For example, over 90% of respondents to the 2016 PLT Consultation Questionnaire thought that PLT increases for businesses should be the same or greater than increases for residential properties.

4. A need for greater certainty about the end goal of PLT reform

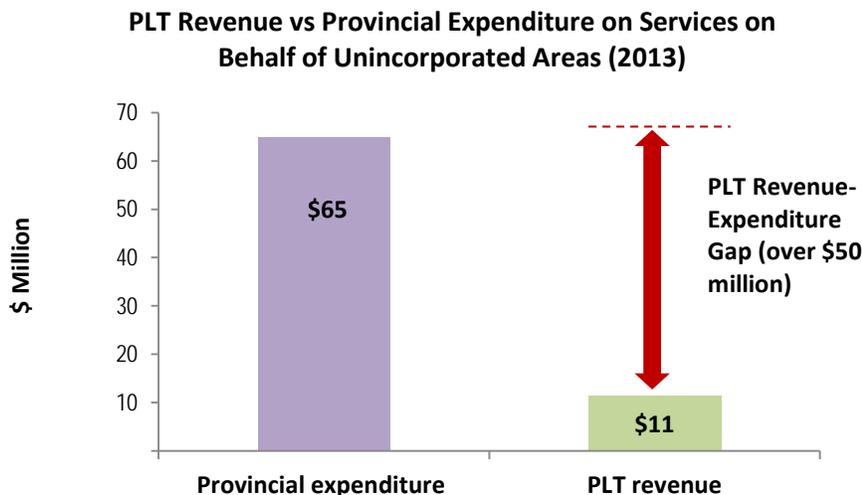
The Ministry also heard concerns about the need for greater certainty about the end goal of PLT reform. Many property owners found it difficult to plan ahead without knowing how their PLT might change in the future.

INITIAL STAGES OF PLT REFORM

Inequities in How Services are Funded in the North

The initial stages of PLT reform began to address inequities in taxation and in how services are funded in the north. This section provides an overview of these changes prior to summarizing the 2017 consultations which focused on remaining inequities addressed by the final phase of PLT reform.

One of the key findings of the initial PLT review identified inequities in the way services are funded in the north. PLT revenue covers only a portion of the amount the Province spends on behalf of unincorporated areas for important services such as policing, land ambulance and public health. When the PLT review was announced in 2013, the Province contributed almost \$90 million to fund these services, which is about \$65 million more than what the Province would provide if services were cost-shared as they are with municipalities. This resulted in a gap of more than \$50 million between PLT revenue and Provincial expenditures on these services.



The gap between PLT revenue and provincial expenditures in unincorporated areas is a major factor in explaining the difference between the average northern municipal tax and average residential PLT.

A key objective of PLT reform has been to address this gap, however, reform will not fully close this gap. This is because the government recognizes that northern municipalities also receive support from the Province through significant grants and programs.

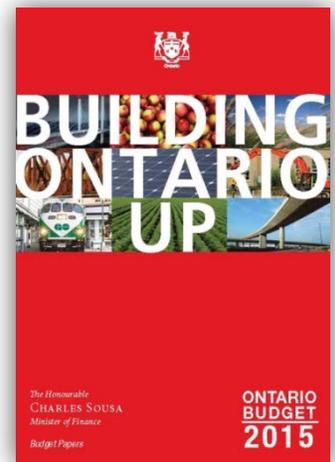
The tax inequities identified through the PLT review highlighted the need for a more equitable and modern PLT system. The 2015 Ontario Budget announced a staged approach to PLT reform so that change would proceed at a manageable pace.

2015 and 2016 PLT Changes

The first stage of PLT reform marked an important initial step in addressing inequities in taxation and in how services are funded in northern Ontario. Through changes announced in the 2015 *Ontario Budget* PLT rates were adjusted to increase revenue for the first time in over 60 years.

Residential PLT rates were adjusted by \$10 per \$100,000 of assessed property value in 2015, and an additional \$40 per \$100,000 of assessed value in 2016.

2015 and 2016 Changes to PLT Rates (per \$100,000 of Assessed Value)		
Residential Class	2015	2016
Inside School Board	\$10	\$40
Outside School Board	\$10	\$40



To address concerns in relation to business contributing a fair share, the PLT rate change for business properties was in line with the percentage change for residential properties in areas outside school boards.

The minimum PLT was set at \$50 annually per property beginning in 2016 (up from \$6) to ensure that all property owners would make a basic contribution toward the cost of important services in unincorporated areas.

While these PLT changes marked an important step toward creating a fair and modern PLT system, a gap still remained between PLT revenue and provincial funding for services in unincorporated areas.

2017 PLT Changes

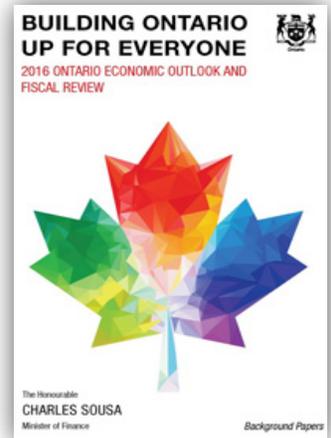
The second stage of PLT reform was announced in the 2016 *Ontario Economic Outlook and Fiscal Review* and responded to key concerns raised during the PLT review.

During consultations with northerners, the Ministry of Finance heard about inequities between municipalities and unincorporated areas, as well as concerns about PLT rate inequities within unincorporated areas, between areas inside and outside school boards. Many residents also indicated that businesses should contribute their fair share of any future PLT changes.

In addition to concerns about tax inequities, property owners in unincorporated areas expressed the need for greater certainty about future PLT rate adjustments.

The changes announced in the 2016 *Ontario Economic Outlook and Fiscal Review* included adjusting the PLT rate for residential properties inside school board areas by \$20 per \$100,000 of assessed value in 2017.

For residential properties outside school board areas, the PLT rate was adjusted by \$40 per \$100,000 of assessed value in 2017. This larger adjustment began to address the inequity between residential PLT rates inside and outside of school boards.



2017 Changes to PLT Rates (Per \$100,000 of Assessed Value)	
Residential Class	2017
Inside School Board	\$20
Outside School Board	\$40

In addition, the end goal of PLT reform for residential properties inside school board areas was announced to be \$250 per \$100,000 of assessed value. This provided property owners in these areas with greater certainty about future PLT rate changes. However, this end goal would be dependent on all property owners, both inside and outside school boards, contributing their fair share.

The Province also confirmed that business and residential taxpayers would each continue to contribute an equal share of the projected PLT revenue increase. Under this approach, the PLT rate change for business properties was in line with the percentage change for residential properties in areas outside school boards.

The changes announced through the 2016 *Ontario Economic Outlook and Fiscal Review* addressed many of the overall concerns raised throughout the PLT review, however issues related to inequities within unincorporated areas, between properties inside and outside school board areas, remained.

2017 PLT CONSULTATIONS

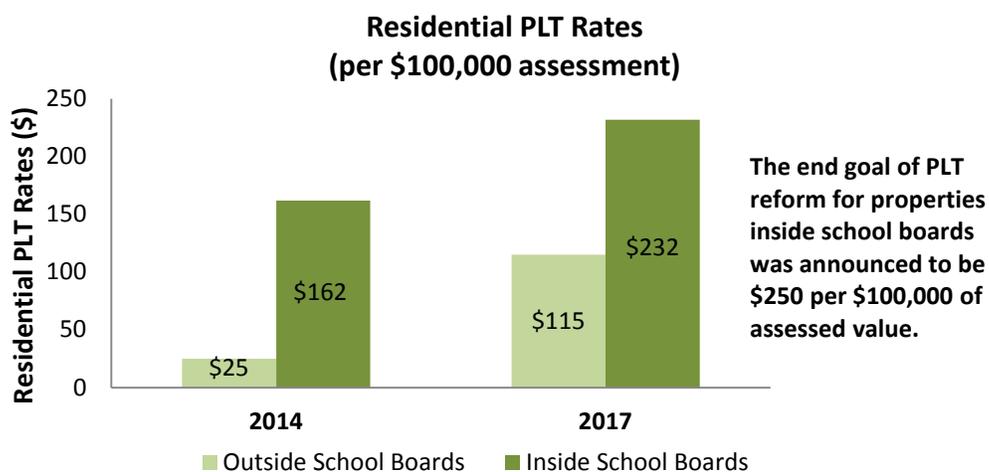
In September 2017 the Ministry of Finance held further consultations with representatives of local boards. Treasurers and chairs of local roads and service boards were invited to attend consultation meetings in Thunder Bay, Kenora, Sault Ste. Marie, Sudbury as well as by teleconference.

During the 2017 PLT consultations, the Ministry of Finance and local board representatives discussed finalizing PLT reform in greater detail. In particular, the Ministry sought input related to the remaining rate inequities within unincorporated areas, as well as timing and implementation considerations for the final PLT rate adjustments.

Addressing Rate Inequities

Through measures implemented as part of the initial phases of reform, the Province began to address the inequities in how services are funded in the north. Addressing the remaining PLT rate inequities within unincorporated areas was also a key objective of reform.

When asked about the PLT rate differences for properties inside and outside school boards, the majority of board members agreed that there was no rationale to justify the differences in PLT rates. More specifically, board members indicated that the difference between rates for properties inside and outside school boards does not reflect any difference in services that are available in unincorporated areas.



The majority of consultation participants agreed that these inequities should be addressed through the final phase of reform in order to ensure that all residents pay their fair share of PLT.

Considerations for Finalizing Reform

When asked about what considerations should be given to finalizing PLT reform, local board representatives provided input on phasing-in the remaining PLT rate adjustments, as well as the level of detail that should be shared with property owners in unincorporated areas.

The overwhelming majority of board members indicated that a single PLT rate should be phased-in over a few years, rather than being adjusted immediately. This approach would ensure that final PLT changes proceed at a manageable pace, similar to the manner in which rate adjustments were implemented in prior years. In addition, board members requested that the Province announce the remaining details of PLT reform, in order to provide the greatest level of certainty for all taxpayers in unincorporated areas.

The Ministry of Finance and local board representatives also discussed PLT rate increases and the responsiveness of existing tax relief programs, particularly for vulnerable property owners such as low-income seniors and low-income residents with a disability. Board representatives generally agreed that there is sufficient tax relief available for vulnerable property owners in unincorporated areas. In fact, the Ministry confirmed that in many cases, the benefits and grants provided through existing tax relief programs can fully offset the total tax bill for low-income seniors. Additional information related to these tax relief programs is available on the Ministry's PLT web page at:

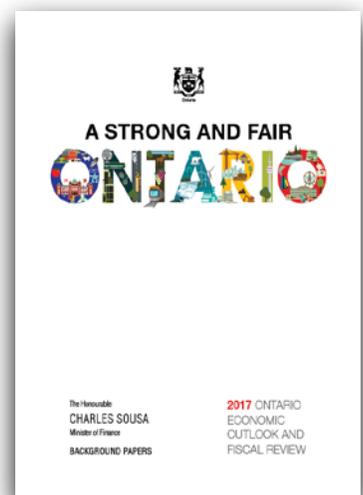
<http://fin.gov.on.ca/en/consultations/landtaxreform/index.html#tax-relief-programs>

During previous consultations, representatives of local boards requested administrative improvements to better support local board operations. In response, the Ministry implemented a number of measures including changes to make the PLT bill more transparent, improved information sharing processes, and providing options to simplify and reduce the cost of billing administration. The Municipal Property Assessment Corporation (MPAC) also committed to working closely with the Ministry to explore other potential PLT system improvements.

FINAL PHASE OF PLT REFORM

The final phase of PLT reform was announced in the *2017 Ontario Economic Outlook and Fiscal Review*. These final measures build upon the significant progress that has already been made with respect to developing a fair and modern PLT system, and respond to the three key issues raised throughout the review:

- Addressing rate inequities within unincorporated areas,
- Ensuring that businesses contribute a fair share, and;
- Providing greater certainty about the end goal of PLT reform for all taxpayers.



2018 – 2021 Residential PLT Changes

The changes announced as part of the final phase of PLT reform include confirming that the tax rate for all unincorporated residential properties would be \$250 per \$100,000 of assessed value. This tax rate would apply to all residential properties, both inside and outside school board areas.

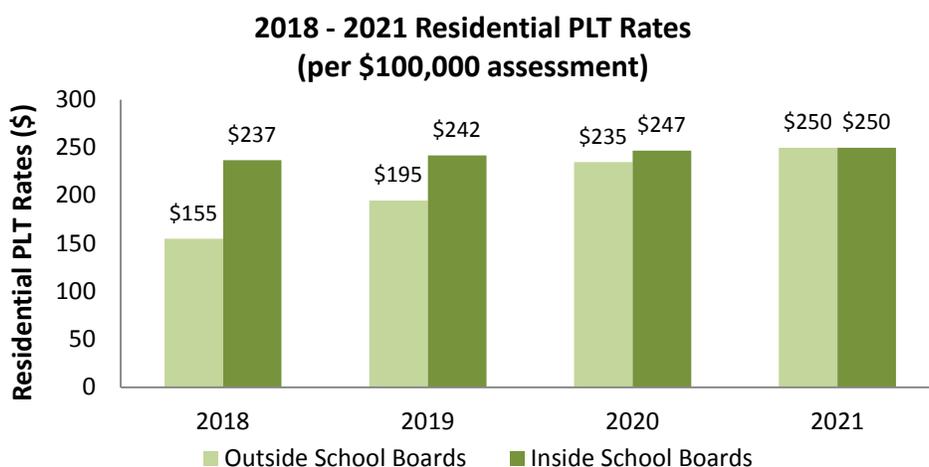
A single residential PLT rate is consistent with the majority of feedback provided throughout the review. As previously noted, consultation participants emphasized that there is no rationale to justify PLT rate differences, particularly since there is no difference in services that are available to all unincorporated area residents.

The *2017 Ontario Economic Outlook and Fiscal Review* also confirmed that the remaining PLT rate adjustments would be phased-in over four years. This provides greater certainty and ensures that the remaining changes are manageable for property owners.

Annual changes to residential PLT rates over the next four years are outlined in the table below:

2018 – 2021 Changes to PLT Rates (per \$100,000 of Assessed Value)				
Residential Class	2018	2019	2020	2021
Inside School Board	\$5	\$5	\$5	\$3
Outside School Board	\$40	\$40	\$40	\$15

Once PLT reform is fully implemented in 2021, a single tax rate of \$250 per \$100,000 of assessed value would apply to all residential properties, both inside and outside school board areas, as illustrated in the following chart:



Managed forest and farm properties will continue to be taxed at 25 per cent of the residential PLT rate.

2018 – 2021 Business PLT Changes

Business and residential taxpayers will each contribute an equal share of the projected PLT revenue increase. Under this approach, the PLT rate changes for business properties will continue to be in line with the percentage change for residential properties in areas outside school boards.

The business PLT rates over the next four years are outlined in the following table:

2018 – 2021 PLT Rates (per \$100,000 of Assessed Value)				
Property Class	2018	2019	2020	2021
Commercial	\$215	\$247	\$279	\$300
Industrial	\$215	\$247	\$279	\$300

Once the changes to business and residential PLT rates have been fully phased-in, PLT revenue is projected to be about \$40 million by 2021. Business and residential property classes will continue to make similar contributions to the projected PLT revenue increase.

Finalizing PLT Reform

With the changes announced in the *2017 Ontario Economic Outlook and Fiscal Review*, PLT reform will be completed in 2021, and no further adjustments will be required.

These final measures, in addition to the PLT changes implemented since 2015, ensure that all property owners will contribute their fair share towards the cost of important services in unincorporated areas. With the completion of this final phase of reform, the PLT in northern Ontario will be transformed into a fair and modern property tax system.

For more information on the PLT review, please visit the PLT Web page on the Ministry of Finance's website: <http://www.fin.gov.on.ca/en/consultations/landtaxreform/>